

USAID FINANCIAL SERVICES REVIEW

*“Micro, Small and Medium
Enterprise Lending”*

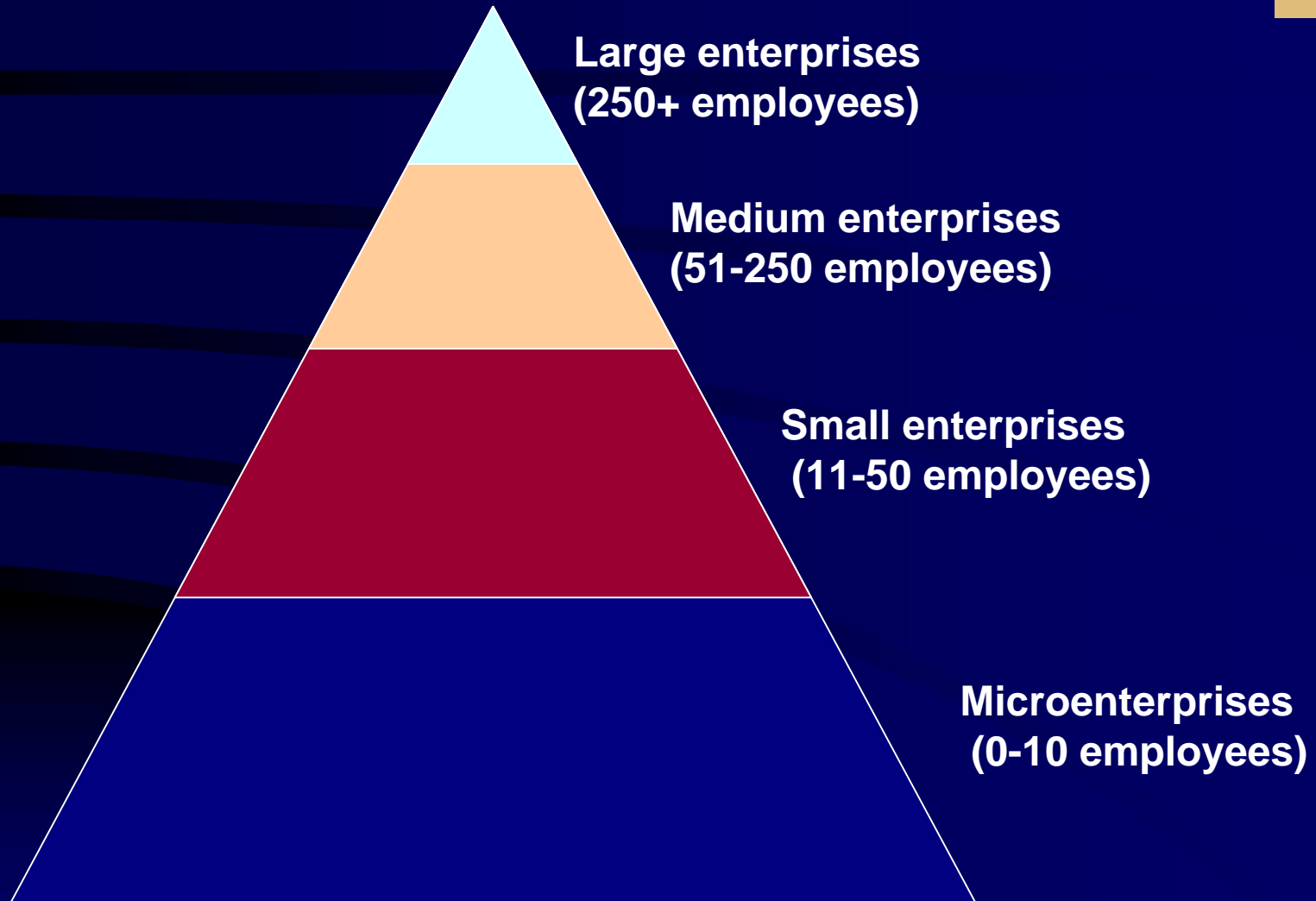
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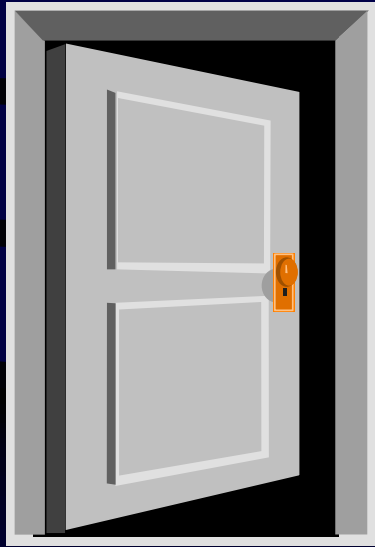
Past FS IQC Emphasis

- **Banking.** Heavy focus on traditional banking sector, through bank restructuring and regulation and supervision – typically serves larger enterprise market
- **Microfinance.** Emphasis on microfinance, especially microlending, for enterprises with 1-10 employees, often family-run businesses

Enterprise Development Continuum



Future Opportunity



- Approximately 1 in 10 microenterprises have growth potential
- SMEs represent large under-served market and yet offer the most employment and growth potential
- Lessons from both traditional banking and microfinance can be applied

Development Context

- Banks are risk averse and don't see SME market as viable
- MFIs in past have focused on group lending, often don't have staff with analytical abilities
- Regulatory environments not conducive – need for more transparency and efficiency in formal business registration process, land reform, effective collateral registry and court system

Approaches to SME Finance

Chemonics' Small Business Credit and Assistance Project in Albania uses two approaches to reach the “missing middle”:

1. Down-scaling – working with commercial banks to offer smaller loans through guarantee facility, as well as technical assistance:

- Loan officer training on cash-flow lending
- Human resources development assistance

2. **Up-scaling** – working with an MFI to offer larger loans to larger enterprises

- Average loan sizes to date: \$11,000 - \$12,000

Holistic development – Chemonics also targets competitive “clusters” for assistance in developing high-value exports, leather goods, agribusiness, fisheries and apparel.

Uganda SPEED

Chemonics works with banks and MFIs to improve marketing and product development, as well as MIS and accounting systems.

Ugandan Context:

- Past culture of non-payment, conservative banking attitude
- T-bills offered good returns with low risk
- Slow down in traditional lending opportunities
 - Market for SME loans (\$1,500 - \$225,000)

Key Elements of Approach

- \$30 million DCA guarantee with 7 banks
- Training on SME lending with Ugandan Institute of Bankers
- “Grow Your Business Program” on how to attract and retain SME clients
- Post-Approval Loan Review (PALR) Mentorship Program for loan officers - send loan documentation to SPEED consultants for review

Enabling Environment

- Promote and advocate positive regulatory environment (e.g. working with Ministry of Finance to evaluate impact of tax changes on leasing sector)
- Increase banks' awareness of opportunities represented by MFIs (more banks offering loans and refinancing to MFIs)
- Encourage links between BDS providers and SME lenders

SPEEDy Results

- From June 2001 to June 2002...
 - SME lending increased \$16.8 million (54%), from \$31.1 million to \$47.9 million
 - Number of SME loans increased by 34% from 5,831 to 7,836
- Since March 13, 2002 when DCA was launched, 24 loans have been issued with an average loan size of \$193,000

Additional SME Approaches

- Other products for this market – leasing, warehouse lending, savings vehicles
- Link with credit bureaus to reduce risk of lending to bad borrowers
- Use of IT to enhance services – credit cards, ATMs, electronic funds transfer systems (Madagascar CEM)



Lessons Learned

- Include an enabling environment component – begin by reviewing business registration process, taxation and reporting requirements
- Assist USAID missions with DCA implementation
- Initially focus on domestic market – it's hard for small enterprises to make leap to export markets

SME Lending Best Practices

- Reduce risks – assess character, analyze cash flow of business and household, use collateral and co-signature guarantees
- Know your market – entrepreneurs have diverse needs and preferences
- Develop SMEs holistically – link SMEs to Business Development Services, Competitiveness and Subsector strategies



Thank you!